
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
POLICY SUBCOMMITTEE
OF THE
INVESTMENT COMMITTEE**

MINUTES OF MEETING

December 14, 2007

A meeting of the Policy Subcommittee was held on Friday, December 14, 2007 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 1:20 p.m. and the following members were present:

Priya Mathur, Chair
Marjorie Berte, Vice Chair
Tony Oliveira
Charles Valdes

Policy Subcommittee members excused:

Robert Carlson

AGENDA ITEM 2 – APPROVAL OF THE OCTOBER 2007 MEETING MINUTES

On **MOTION** by Mr. Valdes, **SECONDED** and **CARRIED** to approve the October 12, 2007 meeting minutes as presented.

AGENDA ITEM 3 – Adoption of Policy on Inflation-Linked Asset Class and Three of its Components: Commodities, Inflation-Linked Bonds, and Forestland

The following staff presented the item:

Russell Read, Chief Investment Officer
Farouki Majeed, Senior Investment Officer-Asset Allocation
Curtis Ishii, Senior Investment Officer-Global Fixed Income
John Kowalik, Portfolio Manager-Global Fixed Income
Rob Grady, Portfolio Manager-Global Fixed Income
Ted Eliopoulos, Senior Investment Officer-Real Estate
Al Fernandez, Senior Portfolio Manager-Real Estate

The following consultants were available to respond to questions from the Subcommittee:

Michael Schlachter, Wilshire Associates
Mike Moy, Pension Consulting Alliance (participated by phone)
Andrew Howard, Cortex Consultants

The Policy document consists of a master Inflation-Linked Asset Class (ILAC) Policy and individual policies for three of the four ILAC components: Commodities Program, Inflation-Linked Bond Program, and Forestland Program. An Infrastructure Program policy will be presented in early 2008.

The investment policies for the Commodities Program and Forestland Program represent revisions to existing policies. The Inflation-Linked Bond Program policy is new.

The Subcommittee reviewed the proposed ILAC Policy, including revisions distributed at the meeting, and directed staff to make the following changes:

1. Commodities Program – Add a stipulation regarding permitted collateral investments. Inflation-linked bonds may not exceed 20% of the Commodities Program collateral.
2. Forestland Program – Add a reference to the Policy on Hazardous Materials in Real Estate Investments.
3. Forestland Program – Clarify the leverage language and add a quarterly reporting requirement in which staff will report to the Investment Committee regarding loan-to-value ratios and asset allocation targets.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to recommend to the Investment Committee adoption of the Statement of Investment Policy for Inflation-Linked Asset Class and Three of its Components: Commodities, Inflation-Linked Bonds, and Forestland, including revisions in the handout and as directed by the Subcommittee.

The Investment Committee will approve a strategic asset allocation on December 17, 2007. If needed, the ILAC asset allocation in the Policy will be revised to match the approved asset allocation prior to presenting the Policy at the February Investment Committee meeting.

AGENDA ITEM 4a – GLOBAL FIXED INCOME, Revision of Policy on Dollar-Denominated Fixed Income Program

Curtis Ishii, Senior Investment Officer, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

Recently, the Investment Committee approved expanding the internally managed dollar-denominated fixed income program to include shorting and to increase limits for non-investment grade securities in order to enhance the return of the program. Revisions to the policy incorporate approved shorting guidelines and limits for non-investment grade securities.

The revisions also include the following technical changes:

1. Inclusion of the Foreign Debt Policy as an attachment to this policy.
2. Consistent differentiation between investment grade and non-investment grade securities. Previous versions of this policy did not consistently separate investment and non-investment grade securities for every sector. The proposed language creates a consistent definition and clarifies the difference between investment grade and non-investment grade securities.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy for the Dollar-Denominated Fixed Income Program.

AGENDA ITEM 5 – PROPOSED REVISION OF 2008 MEETING DATES

Anne Stausboll, Chief Operating Investment Officer, presented a proposed Subcommittee meeting schedule for 2008, which takes into account the Board's desire to consolidate its meeting schedule into a Monday through Wednesday period

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve 2008 Subcommittee meeting dates to follow the Investment Committee meetings on:

Tuesday, February 19
Monday, April 21
Monday, June 16
Monday, August 18
Monday, October 20
Monday, December 15

AGENDA ITEM 6 – DRAFT AGENDA FOR FEBRUARY 2008

The Subcommittee accepted the proposed February 2008 agenda.

AGENDA ITEM 7 – PUBLIC COMMENT

There were no public comments.

The meeting was adjourned at 2:45 p.m.

The next Subcommittee meeting is scheduled for February 19, 2008 at a time to be determined in Sacramento, California.